

**TESTIMONY OF RICHARD R. TERZIAN BEFORE CALIFORNIA
PERFORMANCE REVIEW COMMISSION ON SEPTEMBER 27, 2004**

Good morning, my name is Richard R. Terzian. For over 17 years, from 1986 to 2003, I had the honor of serving on the Milton Marks Commission on California State Organization and Economy, commonly known as the Little Hoover Commission. For seven of those years, from 1994 to 2001, I served as its Chairman.

Reorganizations of all three branches of state government have proceeded in fits and starts for close to one hundred years. The Little Hoover Commission was created in 1962 to review and recommend changes in the executive branch of state government to improve economy and efficiency. After 1967, when the current statutory authority for reorganization came into existence, the Commission was given a unique role in reorganization plans.

The law requires the Governor to submit any reorganization plan to the Commission at least 30 days prior to submitting the plan to the Legislature. The Commission's role is advisory only. It reviews the proposal and submits a report to the Governor and Legislature within 30 days of the plan being submitted to the

Legislature. In practice, the Commission has about 60 days to review the plan and issue its report. In doing so, the Commission conducts one or more public hearings at which interested agencies and persons can speak. The Commission also receives written comments. The Commission then recommends to the Governor and Legislature as to whether it believes the plan should go into effect. On some occasions the recommendations include modifications to the plan or provisions for implementation. Unless the Legislature takes the affirmative step of rejecting the plan, it becomes effective.

The Little Hoover Commission reviewed 29 reorganization plans between 1968 and the most recent plan submitted in 2002. During my service on the Commission I participated in hearings on six reorganization plans. Five of those were approved by the Commission and one was rejected. None of them, even the largest, approached the scope of what is proposed by the California Performance Review Commission. Two of the plans were comparatively small and fell into what I would call a “no-brainer” category. In one, the California State Police was merged with the California Highway Patrol, taking a small state-wide law enforcement agency and consolidating it with a large state-wide law enforcement agency. Another was merger of the State Fire Marshal with the Department of

Forestry and Fire Protection - again unifying agencies with similar functions.

Other plans, with significantly greater scope, were a split. One of them, creation of the State Environmental Protection Agency by combining a number of related boards and departments, was recommended by the Commission and went into effect. However, two other plans were ultimately rejected by the Legislature. One would have reorganized the Energy Commission and related governmental functions to eliminate overlapping and duplicative functions. The other proposed to dissolve the Department of Corporations, transferring its health care supervisory functions to the Transportation and Housing Agency and its financial role to the Department of Financial Institutions. The Little Hoover Commission rejected this last reorganization plan on a closely split vote and the Legislature also rejected it. To my knowledge this was the only time in its history that the Commission expressly rejected a reorganization plan.

The last reorganization plan, submitted by Governor Davis in 2002, combined various labor agencies to form a single Labor and Workforce Development Agency. The Commission recommended this plan with one dissent and it went into effect.

The lesson to be drawn from this history is that the larger and more ambitious the proposal, the more agencies and interests will be affected and the more likely there is to be opposition and rejection. That, of course, is no reason to limit yourself to small, easily-accomplished rearrangements and combinations. On the contrary, I believe that this Commission should take bold and large steps in proposing a far-ranging reorganization of state government. Your staff has informed me of key considerations in this connection:

- a. Improving access to services and delivery to those who need them.
- b. Improving program efficiency.
- c. Saving taxpayer funds.

I suggest these goals can be implemented in the following ways:

1. Reduce the number of state agencies. Whether they are full-time or part-time and whether they are called boards, commissions, offices, or any other designation, they should be reduced. There are too many functions carried on by government and there are far too many offices performing bits and pieces of them. This will not only save funds but will improve ease and simplicity of access so that people needing services will find them at a single source. One of the prior witnesses, Mr. Felmeth, appeared before the Little Hoover Commission on several occasions advocating such reductions. His focus was primarily on the regulatory part-time

boards and commissions as impediments to market access for the providers of goods and services. I think your focus should be to reduce and streamline government for its own sake. It has been difficult to eliminate agencies in the past, but it has been done. For example, we no longer have a Public Broadcasting Commission. One of the last recommendations of the Little Hoover Commission while I was there urged that the Office of Criminal Justice Planning be abolished. It was, but there has been no follow up and its personnel and functions have been distributed to other agencies - a kind of rearrangement of furniture.

2. Eliminate the incentives for multiplication of agencies. The main such incentive is the source of funding. An example of agencies that exist for funding purposes only are hospital districts without hospitals. Hospital districts can be formed like water districts as special purpose districts under enabling legislation with the power to levy taxes. Over the past few years a number of those hospital districts have had to close their hospitals for financial reasons, but the districts still exist. They've changed their name to health care districts and provide ambulance services, visiting nurse services health advice. Hospital districts without hospitals appear to be the ultimate example of government bureaucracy that will not die unless you recognize the reason for their continued existence. The taxes they levy can be used locally for local health needs. If the district was dissolved the funding for health purposes would have to come from general funds of the state. There is no guarantee that a specific locality would get as much as it had with the old hospital district. So our hospital districts limp on under a different name and

carry out an essentially different function with the perfectly rational goal of making sure that locally raised health care dollars are used for local needs.

3. Don't move the boxes around on the organization chart. If agencies are abolished, it cannot be another rearrangement of the bureaucratic furniture. Surplus employees will have to be eliminated, rather than have the same number of employees be reassigned to a specific place. Ten different agencies carrying on various aspects of a single function, of necessity, require more personnel. A single agency carrying on all those functions can reduce staff, if only by reduction of the duplicative managerial level supervisors. I suggest that part of your task is to make sure that such duplication is eliminated.
4. Is this function necessary? Before implementing any plan of reassignment and streamlining functions you should ask a preliminary question. That question is - should the State of California be doing this thing, whatever that thing happens to be? Should we do it at all? If so, can that function be more effectively and efficiently provided by private or charitable organizations aided by some state funding rather than done primarily by a state agency. I think services like alcoholism and drug rehabilitation are examples. Too often the state does things because there is federal funding available standing alone. Generally, such funding is on a matching basis. Standing alone, the availability of federal funding is not a good enough reason for the state to do anything, no matter how appropriate the goal.

In conclusion, I salute you for the enormous task you've taken on. I think it is a task that has to be accomplished. If it is accomplished, it will have the same ultimate impact as did the populist reform revisions to the state constitution of 1911 that created the current structure of state government and the 1966 changes that expanded and revolutionized the form of the Legislature. I hope this Commission can make it happen.